

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W

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O 292100Z JUL 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC IMMEDIATE 1007

C O N F I D E N T I A L QUITO 5391

EXDIS

FOR DEPUTY ASST. SECY. (ARA) GRUNWALD FROM AMBASSADOR

E.O. 11652: GDS

TAGS: ENRG EC

SUBJ: TEXACO-GULF

1. BEGIN CUMMARY. MINISTER OF FINANCE CESAR ROBALINO CALLEDME IN TODAY TO EXPRESS HIS"GRAVE CONCERN" OVER THE POSSIBLE CONSEQUENCES OF THE ACTIONS OF TEXACO AND GULF IN WITHHOLDING DEPOSITS ON THEIR SHIPMENTS OF CRUDE AND TO REQUEST THAT I ASK THE COMPANIES TO RENEW DEPOSITS PENDING A SOLUTION OF THEIR OVERALL PROBLEM, WHICH HE EXPECTS TO RESULT FROM THE COMPANIES' MEETING WITHTHE SUPREME COUNCIL NEXT WEEK. AFTER WEIGHING THE PROS AND CONS I ASK THAT THE DEPARTMENT RECOMMEND TO THE COMPANIES THAT THEY MAKE ONE DEPOSIT NOW, PENDING THE OUTCOME OF NEXT WEEK'S MEETING. END SUMMARY.

2. THE MINISTER SAID THAT HE WAS VERY CONCERNED THAT THE NEWS THAT THE COMPANIES WERE WITHHOLDING DEPOSITS ON THEIR SHIPMENTS OF CURDE WOULD LEAK OUT TO THE PRESS HERE AND WOULD RAISE A HUE AND CRY FROMALL SIDES OF THE POLITICAL SPECTRUM DEMANDING THAT THE GOVERNMENT TAKE ACTION AGAINST THE COMPANIES. THIS COULD FORCE THE GOVERNMENT TO TAKE MEASURES WHICH WOULD HAVE THE "GRAVEST CONSEQUENCES", HE SAID, AFFECTING NOT ONLY THE COMPANIES BUT RELATIONS BETWEEN OUR TWO GOVERNMENTS. HE ASSURED ME THAT THE SUPREME COUNCIL WAS INTENT ON RESOLVING THE COMPANIES'

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PROBLEMS--THAT WAS THE PURPOSE OF THE MEETING THAT WAS

BEING SET UP NEXT WEEK--AND THAT THE MINISTER OF NATURAL RESOURCES WAS UNDER STRICT ORDERS FROM THE COUNCIL TOWORK OUT A SOLUTION. IN THE MEANTIME, HOWEVER, THE NEWS OF THE COMPANIES' ACTIONS COULD LEAK OUT HERE, DESTROYING ANY CHANCE OF A SETTLEMENT. HE ASKED THAT I PASS ON THE GOVERNMENTS' CONCERNS TO THE COMPANIES AND ASK THEM TO RENEW DEPOSITS IN ORDER TO HEAD OFF THE POSSIBILITY OF "CONSEQUENCES THAT NEITHER SIDE WANTS".

3. I TOLD THE MINISTER THAT I HAD BEEN WORRIED ALL ALONG THAT THE PRESENT SITUATION BETWEEN T-G AND THE GOE WOULD BECOME PUBLIC AND EXPLODE IN OUR FACES AND THAT MY CONCERNS HAD ALREADY BEEN MADE KNOWN TO THE USG AND THE COMPANIES AS WELL AS TO THE GOE. HOWEVER, I POINTED OUT, THE USG COULDN'T DETERMINE THE COMPANIES' POLICIES, IT COULD ONLY GIVE ADVICE WHICH THE COMPANIES COULD ACCEPT OR IGNORE. I TOLD HIM THAT MY IMPRESSION WAS THAT GULF HAD ALREADY LOST CONFIDENCE IN THE GOVERNMENT AND WAS SIMPLY TRYING TO SALVAGE WHAT IT COULD FROM A BAD DEAL AND THAT TEXACO WAS NOT FAR BEHIND. I SAID THAT THE COMPANIES HAD BEEN HEARING ABOUT THE SUPREME COUNCIL'S GOOD INTENTIONS FOR A LONG TIME BUT THAT THE ONLY FACTS THEY HAD TO GO ON WERE THE ACTIONS OF THE MINISTRY OF NATURAL RESOURCES WHICH WERE PROGRESSIVELY EXPROPRIATING THEIR PROPERTY.

4. I DISCUSSED THE COMPANIES' GRIEVANCES--DECREE 285, CEPE'S OVERLIFTINGS FOR "DOMESTIC CONSUMPTION", THE LACK OF ANY SERIOUS RESPONSE TO THE COMPANIES' INVESTMENT PROPOSALS, ETC. ON DECREE 285 HE SEEMED TO BE UNDER THE IMPRESSION THAT THE PROBLEM WAS CONFINED TO THE FACT THAT CEPE WAS TRYING TO APPLY THE DECREE BACK TO JANUARY 1, 1975 RATHER THAN TO APRIL 1975 WHEN THE DECREE WAS PROMULGATED. I DISABUSED HIM OF THIS NOTION, AND SAID THAT DECREE 285 WAS COMPLETELY UNACCEPTABLE TO THE COMPANIES, PAST OR FUTURE. HE ALSO SEEMED ONLY DIMLY AWARE OF THE PROBLEM OF OVERLIFTINGS FOR DOMESTIC CONSUMPTION AND I TOLD HIM THAT IT APPEARED THAT CEPE WAS SIMPLY USING THIS PLOY TO GET OIL FROM THE COMPANIES AT \$1.48 AND SELL IT ON THE WORLD MARKET.

5. I TOLD HIM THAT IT SEEMED TO ME THAT THE BEST CHANCE THE GOE HAD TO GET THE DEPOSITS RENEWED WAS TO COME FORWARD WITH AN OMNIBUS PROPOSAL TO RESOLVE THE
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OUTSTANDING ISSUES. (ON THE LATTER POINT, ROBALINO SAID THAT HE HAD ONLY JUST DISCOVERED THAT TEXACO HAD CEASED MAKING DEPOSITS. I TOLD HIM THAT I UNDERSTOOD THAT THIS WAS BECAUSE THE GOE HAD FAILED TO IMPLEMENT THE REVISED COST OF PRODUCTION FORMULA THAT HAD BEEN AGREED UPON IN MAY AND THUS TEXACO COULD NOT CALCULATE THE PERCENTAGES OF GOE AND COMPANY SHARES FOR THE DEPOSITS.)

6. THE MINISTER KEPT MAKING THE POINT DURING THE CONVERSA-

TION THAT IF THE NEWS OF THE DEPOSIT WITHHOLDING WERE TO GET OUT THERE WOULD BE HELL TO PAY AND THE PRESSURE ON THE GOE TO TAKE DRASTIC MEASURES WOULD PROBABLY BE IRRESISTIBLE. I AGREE WITH HIM. HE NEWS OF THE LAWSUIT AGAINST THE "RUTH" CARGE HAS BEEN RUMORED IN THE PRESS FOR THE PAST WEEK AND TODAY THE PAPERS ARE REPORTING THE STORY AS IT APPEARED IN THE WALL STREET JOURNAL AND THE LOS ANGELES TIMES. THE CONSERVATIVE PARTY (RIGHT-WING) IS MAKING PUBLIC NOISES ABOUT ALLEGED ACTS OF THE OIL COMPANIES WHICH "INVOLVE AN ATTACK AGAINST OUR LAWS, A CHALLENGE TO OUR AUTHORITIES AND A BURLESQUE OF OUR SOVEREIGNTY." THE EXTREME-LEFT IS MAKING SIMILAR CHARGES.

7. THE MINISTER HAS ASKED ME TO PASS ON HIS GRAVE CONCERN TO MY GOVERNMENT AND TO THE COMPANIES AND TO TRY TO PERSUADE THE COMPANIES TO RENEW DEPOSITS. HE SAID THAT HE WOULD TODAY CONSULT WITH THE SUPREME COUNCIL TO TRY TO ASSURE THAT THE GOE COMES FORWARD WITH A FAVORABLE PROPOSAL NEXT WEEK. (UNFORTUNATELY HE HIMSELF IS GOING ABROAD ON TUESDAY.) I SAID I WOULD PASS ON HIS CONCERN (AND MY OWN) TO THE DEPARTMENT. WE AGREED TO GET IN TOUCH ON MONDAY AND COMPARE NOTES.

8. RECOMMENDATION: I REQUEST THAT DEPTY ASST. SECY GRUNWALD RECOMMEND TO TEXACO AND GULF THAT THEY MAKE AT LEAST ONE DEPOSIT OF THOSE THAT ARE IN ARREARS. THIS WOULD HAVE TWO PRUPOSES: (1) IT WOULD ALLOW THE GOE TO MAKE SOME EXCUSE ON THE DEPOSIT PROBLEM SHOULD THE NEWS LEAK OUT. FOR EXAMPLE, IT COULD SAY THAT THE DEPOSITZWEYZFDCAL#PROBLEMS BUT THAT THEY HAD RECENTLY BEEN RENEWED. (2) IT WOULD STRENGTHEN THE HAND OF POVEDA AND ROBALINO IN THEIR EFFORTS WITH THE GOE ON BEHALF OF AN ACCOMMODATION. (3) IT WOULD DEMONSTRATE THAT THE USG IS CONCERNED ENOUGH

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ABOUT OUR OVERALL RELATIONS TO MAKE A SPECIAL EFFORT VIS A VIS OUR MULTINATIONALS AND THIS COULD STAND US IN GOOD STEAD IN HANDLING FUTURE PROBLEMS, WHETHER THEY BE THOSE OF T-G OR OTHERS. THE MAIN POINT, HOWEVER, IS THE FIRST ONE ABOVE, I.E. IT COULD BUY THE SUPREME COUNCIL ENOUGH ADDITIONAL TIME TO SAVE THE SITUATION.

9. I REALIZE THAT THE COMPANIES' REACTION IS LIABLE TO BE A HARD-NOSED ONE TO THE EFFECT THAT THE ONLY WAY TO GET THIS GOVERNMENT TO ACT IS BY BRUTE FORCE. I DO NOT NECESSARILY DISAGREE. BUT THE COMPANIES, ESPECIALLY GULF, HAVE ALREADY MADE THAT POINT AND HAVE BROUGHT THE ISSUE TO A HEAD (WITH A GOOD BIT OF HELP FROM THIS EMBASSY, I MIGHT ADD). HENCE, POVEDA'S INITIATIVE FOR A HIGH-LEVEL MEETING WITH SHIELDS AND LUMKIN AND HIS CONSTANT PRESSURE ON VARGAS. NOW THAT-G HAS TURNED THE SCREW AND TURNED IT HARD, THEY

WILL NOT RISK MUCH BY A SLIGHT EASING OF THE PRESSURE. IF THE MEETING WITH THE SUPREME COUNCIL IS UNSATISFACTORY, THEY CAN ALWAYS RESUME THE TACTIC AND IT CERTAINLY WOULD NOT OBJECT. ON THE OTHER, HAND, IF THE COMPANIES DO NOT HEED OUR ADVICE AND FIND THEMSELVES EXPROPRIATED A FEW WEEKS HENCE, THE ABILITY OF THE USG TO ESPOUSE SUCCESSFULLY THEIR CLAIM BECOMES MORE DIFFICULT.

10. PLEASE ADVISE ME OF THE DEPARTMENT'S DECISION AND THE REACTION OF THE COMPANIES BY MONDAY SO THAT I AM PREPARED FOR MY NEXT ENCOUNTER WITH THE MINISTER.
BLOOMFIELD

NOTE BY OCT: #PARAGRAPH 8. AS RECEIVED. CORRECTION TO FOLL

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 JUL 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976QUITO05391
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: N/A
Film Number: D760293-1139
From: QUITO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976077/aaaaafpt.tel
Line Count: 174
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 20 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 JUL 2004 by SmithRJ>; APPROVED <20 JUL 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: TEXACO-GULF
TAGS: ENRG, EC, US, TEXACO, GULF
To: SECSTATE WASHDC
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006